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INTRODUCTION

1.1 : Introduction

The small scale industries have been contributing heavily for the economic development of industrialised countries like, Germany, Great Britain, Japan and the United States of America. Many nations, both developed and developing, see in the small industry sector a useful vehicle for growth, initially as complementary to the large industry, and later, for the generation of new employment opportunities on a large scale in the shortest possible time. For instance, in the later half of the 19th century, Japan began as a developing country and it was quick to recognise the importance of small entrepreneurs in promoting economic growth. "The government of Japan has always attached considerable importance to this sector and has formulated a number of policies to assist its development. Its programme for small enterprise development has been a model for India and for many a number of other countries. Japan, although now a developed country, still depends largely on the vast network of small enterprises to supply components and intermediate products to the large industries. Today, small industry forms an important part of the Japanese economy". Small and medium enterprises account for approximately 80 per cent of the industrial workers in private sector and therefore, occupy an important place in the industrial structure of Japan. The employment generating

capacity of small and medium enterprises in Japan has been seen to be larger than that in Germany or United States.

Small and medium enterprises play an important role as nucleus for regional economic development. In the development of sparsely populated areas such as Hokkaido Island in the north, they have been a valuable tool for development. In the first half of the sixties, the small and medium enterprises accounted for more than 50 per cent of Japanese exports. Such business was mostly labour intensive and not dependent on import of raw materials and hence, its contribution to foreign exchange was very high.²

Small and medium enterprises have contributed massively for improving the quality of life by providing the local communities with goods and services. During eighties, small and medium enterprises were expected to respond to the requirements - both within the country and in international markets and contribute significantly to the viability of the Japanese economy. Even in the developed countries of Western Europe, United Kingdom and United States of America, there is a recognition that small and rural industries play a significant role in complementing the large industry and in providing opportunities for creative energies of the skilled people. The Watch Industry in Switzerland, the largest in the world, is based on the work of a multitude of small and cottage industrial units. So important were small firms considered in United Kingdom

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that a report (Boiton Committee, 1971) parodied that famous saying of Voltaire that **if small business does not exist, it would be necessary to invent it.** In the USA, small business administration, more than 30 years old, had been placed on a statutory footing reporting directly to the president.

Small industries have the capacity to achieve economic growth faster in view of their shorter gestation period, high employment potential and relatively limited financial requirements. In a developing nation like India where population is high and incomes are low, it is inevitable to develop the small industrial sector which absorbs more unemployed youths with low capital. Small scale industries are, therefore, rightly accorded top priority in India in its programme for economic development with social justice, to which the nation is now seriously committed. The small scale sector has been assigned a pride place in the country's industrial development programme due to the following reasons.

a. A given amount of capital invested in a small scale unit generates more employment opportunities than the same amount in a large industrial undertaking. This is very important for countries like India as they are suffering from high unemployment problem.

b. Small scale industrial units also provide employment opportunities without adversely affecting the main occupation viz., agriculture. The illiterate masses of rural area can undertake work during off-seasons in these industries.

c. India is suffering from two important scarce input factors of production viz., (i) capital, and (ii) technical and managerial skill. Small scale units economise these two factors. In fact, these units contribute to the capital formation and act as a nursery for raising technical and managerial skill.
d. The small scale units mobilise untapped resources of capital and skill that may otherwise remain unutilised in this vast country. Large industries have a tendency to cluster around big cities and therefore, they cannot attract these resources.
e. Unlike the large industries, small scale industries need relatively shorter gestation period.
f. Small scale industries are less dependent on imported machineries and raw materials, and help the conservation of scarce foreign exchange.
g. Small scale sector helps dispersal of economic power and thus, contributes for the balanced economic growth in the country.
h. Small scale sector helps to meet a substantial part of increased demand for consumer goods and simple producer goods.
i. The creation of a network of small scale industries opens up more sources of supply and demand opportunities for large scale industries and improve strength and viability to the industrial sector.
j. Small scale industry promotes handicrafts and aesthetic values.

For the above reasons, small scale sector and its development in a developing economy like India is essential. Hence, the governments – both the central and the states – have been according priority to this sector.

1.2: Development of Small Scale Industries in India

Making the best use of the natural resources by employing high order of skilled and artistic talents through traditional handicrafts, India has occupied a
permanent place of pride in the world. Before Industrial Revolution, the advent of modern large scale mechanised industry, imposition of restrictions on Indian trade by the British rulers and deteriorating socio-economic conditions led to the decline of small scale industry. But with the provision of permanent place in the nation's policy of economic development after the attainment of Independence, it has stayed a grand recovery and is now well entrenched on the path of progress towards great expansion. A brief review of progress of small sector before and after Independence is presented below.

1.2.1: Pre – Independence

Cottage and small scale industries had flourished in India in early times. They were the principal sources of income and employment, and their products were noted for their excellence and artistic skill. At a time when the West Europe, the birth place of modern industrial system, was inhabited by uncivilised tribes, India was known for the wealth of her rules and for the high artistic skill of her craftsmen. Prof. Weber wrote the skill of the Indians in the production of delicate woven fabrics, in the mixing of colours, the working of metals and precious stones, the preparation of essences and in all manners of technical arts has, from very early times, enjoyed a world-wide celebrity.5 Ages ago, Muslims of Dacca were famous, throughout the civilised world, for textile fabrics of inimitable fineness, tapestry glittering with gold gems, rich

embroideries and brocades, carpets wonderful for the most brilliant hue, furniture most elaborately carved, swords of forms and excellent temper are among the objects that prove the perfection of art in India. These observations signify the glory and prominence of the products of cottage and small scale industries.

The decay of these industries has been accelerated after the advent of the British though the seed was sown during the Moghul period itself. The important factors which worked towards this situation are presented below.

a. With the disappearance of the native courts during Moghul period, the cottage and small industries lost their patronage.

b. The influx of many foreign influences resulted in the decline in the demand for home-made goods.

c. The competition from machine-made goods of the British industries resulted in the fall in the demand for the Indian goods.

d. Due to the discouraging policy of the East India Company, the Indian artisans were forced to work in the work-shops of companies for their livelihood as they could not find adequate demand for their home-made goods.

e. Failure of the artisans to adjust to the changing condition resulted in the high cost of production of their products and therefore, they were not in a position to compete with the machine-made goods of the British industries.

In spite of these discouraging factors, some of the cottage and small industries have shown remarkable progress and have survived the British rule.
Because, Indian agriculturists needed some supplementary occupation to utilise their idle time and to augment their low earnings.

The cottage and small industries provided supplementary occupation for the idle agriculturists during the off-season. Therefore, a large number of repair services of different types that have followed in the wake of large scale industries are indeed carried on in small establishments in the vicinity of larger industries. Further, the Indian artisan is by nature home-living and conservative. This nature of the workers viz., illiteracy and poverty, lack of alternative means of employment, the socio-religious and religion factors, etc., have forced them to stick to their age-old ancestral profession.

1.2.2: Post-Independence Scenario

The Government of India which realised the socio-economic significance and the role of small scale industries has initiated several positive measures for their development. "The Industrial Policy pronouncements, the progressive allocations made in the Five-Year Plans, the establishment of different promoting and supporting organisations and the nationalisation of commercial banks reflect the spirit and effort of the government towards the creation of conducive environment and climate for the working and growth of small scale industries". In fact, the performance and progress achieved by the small scale

sector are the result of various measures initiated by the government for their growth and efficient working.

1.2.2.1: Industrial Policy and Small Scale Industries

The small industries have a specific role to play and it was underlined by the Industrial Policy, 1948 which stated that cottage and small scale industries are particularly suited for better utilisation of local resources and for the achievement of local self sufficiency in respect of certain types of essential goods. After the formulation of first Five - Year Plan (1951-56), a committee was appointed by the Planning Commission under the chairmanship of Prof. D. G. Karva and this committee made the following recommendations:

a Any development programme for small industry should be decentralised,

b The programmes should aim at gradual improvement in techniques without reducing job opportunities, and

c They (i.e., programmes) should assure market for the produces of small scale units through co-operatives and aim at positive promotional support rather than enforcing protection or reservation.

Further, the Small Scale Industries Board was established in 1954 and a number of useful schemes such as, supply of machineries on hire purchase basis, liberal and wider grants under the State Aid to Industries Act, and price preference in government purchase were also initiated to encourage the small sector. The government announced its second Industrial Policy in 1956 replacing the first Industrial Policy Resolution of 1948.

The New Industrial Policy Statement of 1956 made it very clear that small scale industries provide immediate large scale employment, offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. The government had followed a policy of supporting small scale industries by restricting the volume of production in the large scale sector, by differential taxation, and by direct subsidies. While such measures continue to be taken wherever necessary, the aim of the state policy is to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large scale industries. The state will, therefore, concentrate on measures designed to improve the competitive strength of the small scale producers.

During the later part of 1970’s, the Union Government of India (Janata Party) gave a fitting place to small scale through the New Industrial Policy, 1977. The Policy puts it thus the emphasis of industrial policy, so far, has been on large industries, neglecting cottage industries totally and giving small industries the minimum importance. It is the firm policy of this government to change this approach. The main thrust of the New Industrial Policy will be on effective promotion of cottage and small industries widely dispersed in rural area and small towns. To bring about

the required change, the Industrial Policy Statement has suggested six specific measures which are presented below.

a. It is the policy of the government that whatever can be produced by small and cottage industries must only be so produced. The number of products reserved for small sector was, therefore, increased from 180 to 504 and again, enlarged the list of reserved items to 807,

b. Special attention will be given to units in the tiny sector viz., those with investment in machinery and equipment up to Rs. 1 lakh and situated in towns and villages with a population of less-than 50,000,

c. Special legislation will be promulgated to give due recognition and adequate protection to the self-employed in cottage and house-hold industries,

d. The focal point of development for small sector and cottage industries will be taken away from big cities and state capitals to the district head-quarters. In each district, there will be one agency to deal with all the requirements of small and village industries called District Industries Centre,

e. Special arrangements for the marketing of the products of the small sector will be made by providing services such as product standardisation, quality control, marketing survey, etc., and

f. Technical up-gradation will be encouraged in the traditional sector.

When the Congress Party re-captured the power at the centre in 1980, it announced a New Industrial Policy in July 1980 and the government felt that the industrialization is the indicator of economic progress. The sailent features of this Policy are presented herein under.
a. To increase the capital investment ceiling in small sector to Rs. 25 lakh,
b. To increase the capital investment ceiling in tiny sector from Rs. 1 lakh to Rs. 2 lakh, and
c. To increase the capital investment ceiling in ancillary units to Rs. 35 lakh.

The Industrial Policy Statement of 1985 has also accorded importance to the small scale sector and made some suitable policy changes. The definition of small scale unit was revised to include all manufacturing units having investment in plant and machinery up to Rs. 35 lakh. In case of ancillary units, the investment ceiling was increased to Rs. 45 lakh.

The New Industrial Policy Statement, 1991 which was announced in July 1991 observed that the small scale industrial sector has emerged as a dynamic and vibrant sector of the economy during the eighties. At the end of the Seventh Plan period, it accounted for nearly 35 per cent of the gross value of output in the manufacturing sector and over 40 per cent of the total exports from the country. It also provided employment opportunities to around 12 million people. The main features of this New Policy of 1991 are summarised below.

Government of India has announced the increase in the investment limits in plant and machinery for small scale, ancillary and export - oriented units to Rs. 60 lakh, Rs. 75 lakh and Rs. 75 lakh respectively. Now, investment ceiling on plant and machinery is increased to Rs. 100 lakh.
1.2.2.2: Small Scale Industries and The Five-Year Plans

To protect the small scale sector, the First Five-Year Plan (1951-56) recommended common production programme. This was to ensure that while both large and small units make their contributions to the total requirement of the community, the small units would fulfil the targets set for them.

An important landmark in the history of development of small scale industries in India was the visit of the International Perspective Team during 1953-54 which was jointly sponsored by the Government of India and the Ford Foundation. The Team in its report recommended for the setting up of Regional Extension Institutes to provide services in the areas of technical, marketing and financial matters. In pursuance of the recommendations made by the Team, four Regional Extension Institutes were set up at Bombay, Calcutta, Delhi and Madras to provide technical assistance to small industrialists. One more organisation established by the government to extend further help and guidance was the National Small Industries Corporation (NSIC, 1955). Thus the foundation was laid for the growth of small scale industries in India.

The Second Five-Year Plan (1956-61) gave prominence to heavy and basic industries. However, it did not neglect the small industries or producers. In fact, the basic philosophy of the Plan was not only to encourage small industries but also to establish an economic order with the small producers at the centre.
The Third Five-Year Plan (1961-66) aimed at greater diversification of the production in the small sector and a closer integration between the large and small sectors in specified items. Another scheme of the Plan was to reserve certain items exclusively for production in the small sector.

The Fourth Five-Year Plan (1969-74) accepted the Policy of Decentralised Growth of Industries. In July 1969, fourteen major commercial banks in the country were nationalised and this has helped to accelerate the flow of funds from the Banks to the small sector. The main programmes during the Plan were credit facilities under the State Aid to Industries Act, training and common service facilities, quality, marketing and consolidation of the industrial estate programmes to be administered by the states.

The Fifth Five-Year Plan (1974-79) opened a new chapter by laying emphasis on the removal of poverty by provision of many self-employment schemes through cottage and small scale industries which received their due share in the Plan allocation. The broad strategy of the programme for the development of the small industries was:

a. to develop and promote entrepreneurship and provide a package of consultancy services so as to create maximum opportunities for employment, particularly self employment,

b. to facilitate fuller utilisation of the skills and equipments of the persons already engaged in different small units,
c. to progressively improve the production techniques of these industries so as to bring them to viable level, and

d. to promote these industries in selected ‘growth centres’ in semi-urban and rural areas including backward areas.

During the Sixth-Five Year Plan (1980-85), the programmes for the village and small industries sector were designed to sub-serve the following objectives.

a. Improvement in the levels of production capacity particularly of the artisans through measures like upgradation of skills and technologies and producer-oriented marketing, etc.,

b. Creation of additional employment opportunities on a dispersed and decentralised basis,

c. Significant contribution to growth in the manufacturing sector through inter - alia fuller utilization of existing installed capacities,

d. Establishment of a wide external base through appropriate training and package of incentives,

e. Creation of viable structure of village and small sector so as to progressively reduce the role of subsidies, and

f. Expanded efforts in export promotion.

During the Seventh Five-Year Plan (1985-90) period, added emphasis was given to industrial development strategy based on adequate infrastructure development incorporating the growth centre concept and nucleus plant approach together with appropriate ancillarization. This approach aimed at
dispersing industries away from urban concentration resulting in job opportunities in the rural areas nearer home.

During the Eight Five-Year Plan (1990-95), a sum of Rs. 2,752.7 crore was allocated for the development of village and small industries. However, the actual expenditure was of the order of Rs. 7,094 crore.

Ninth Five-Year Plan (1997-2002) noted that the small sector is presently producing about 8,000 items, out of which 821 (after the recent de-reservation of 15 items) are reserved exclusively for production by the small sector. However, out of the reserved items, it has been observed that as many as 200 are either not produced at all in the small sector or their production is insignificant. Besides, the IX-Plan mentioned that during the last few years the growth of small scale sector in the non-reserved areas has been higher than in the reserved categories which is a proof of their inherent strength and resilience of the small scale sector and its ability to respond to the challenges of the market force.

In the light of the above, summary of plan outlay for the small scale industrial sector during the last nine plans is presented below.
Table - 1.1: Outlay for SSIs in the Five Year Plans

<table>
<thead>
<tr>
<th>Five Year Plan</th>
<th>Total Outlay (Rs.crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I (1950-56)</td>
<td>48.00</td>
</tr>
<tr>
<td>II (1956-61)</td>
<td>175.00</td>
</tr>
<tr>
<td>III (1961-66)</td>
<td>275.00</td>
</tr>
<tr>
<td>A.P (1966-69)</td>
<td>126.10</td>
</tr>
<tr>
<td>IV (1969-74)</td>
<td>243.00</td>
</tr>
<tr>
<td>V (1974-79)</td>
<td>5,925.00</td>
</tr>
<tr>
<td>A.P (1978-79)</td>
<td>2,557.00</td>
</tr>
<tr>
<td>VI (1980-85)</td>
<td>1,780.45</td>
</tr>
<tr>
<td>VII (1985-90)</td>
<td>NA</td>
</tr>
<tr>
<td>VIII (1990-95)</td>
<td>2,752.70</td>
</tr>
<tr>
<td>IX (1997-02)</td>
<td>6,334.20</td>
</tr>
</tbody>
</table>

Note: ‘A.P’ stands for Annual Plans

From the above, it is obvious that the amount earmarked for the SSIs registered a continuous increase during the fifty years. It increased from Rs. 48 crore in the first plan to Rs. 6,334.20 crore in the ninth plan registering an increase by about 131 times. Though the rate of increase varied from one plan to another, the increase was substantial.

1.3: Small Scale Industries and Institutional Set-up

The government has been aware, for long, of the vital role played by the small scale sector in the economic development of the country and therefore, accorded small scale sector. Therefore, the government has established a few
number of departments, corporations and agencies to help in the setting up of small scale industries.\textsuperscript{10}

Small scale industry is a subject dealt with by the Department of Industrial Development, Ministry of Industry, Government of India. At the apex level is the Development Commissioner of Small Scale Industries (DCSSI) who is responsible for formulating the policies for the small scale sector in coordination with the Planning Commission. This office is also responsible for implementing and monitoring the policy through its network of Small Industries Service Institutions (SISI) in each of the states. The other promotional agencies at the national level are National Small Industries Corporation (NSIC), National Institute for Small Industries Extension Training (NISIET), Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI), Khadi and Village Industries Commission (KVIC), Council of Scientific and Industrial Research (CSIR), Indian Investment Centre (IIC), National Boards for Developing Handicrafts, Coir and Silk, and District Industries Centres (DICs).

1.4: Performance of Small Scale Industries - A Brief Review

Small scale industries (SSIs) are viewed increasingly as an important vehicle for meeting both the growth and equity objectives of developing economies. The last two decades have witnessed the steady re-emergence of

SSIs in both industrialised and industrialising countries reducing, to some extent, the importance of economies of scale in mass production. Though correlation between the size of the enterprise and the stage of industrialisation is not universal, the growth and expansion of SSIs will have a positive impact on the rate of industrialisation in developing countries.

In India, SSIs are a dynamic sector at any given moment not only are existing firms expand and contract, but many new firms are created and others destroyed. In the early stages of development, small enterprises were predominantly craft based and located mainly in rural areas to tap the local resources and skills and to meet the local demand. While there is no universally proven correlation between the size of the enterprise and level of industrialisation, there is enough evidence to suggest that the typology of SSIs tend to be homogeneous with increase in the levels of development. This phenomenon is mainly due to the replacement of tiny enterprises in the informal economy by relatively larger SSIs as also graduation of tiny enterprises into more homogeneous SSIs.

The importance of small scale sector in India needs no emphasis and this sector continues to be a prominent and dynamic sub-sector of the economy. In view of the importance and increasing role of SSI sector, an elaborate set of policies, programmes and institutions have been evolved and/or established during the last four decades. Till recently, the policy support for small scale

sector was of highly protectionism, regulatory and rather over-focussed on subsidy. However, the implementation of economic reforms including (a) industrial and trade policy reforms, (b) increased pace of globalization, and (c) changes in the technology has necessitated a complete review of the policies for SSIs and there has been a paradigm shift in the framework of policy support to small-scale sector in favour of growth, competitiveness and efficiency. Often, it is claimed that the benefits of liberalization mainly in terms of concessions and opportunities have not yet trickled down to SSIs. The performance of small-scale sector, however, challenges the above statement. A few statistics pertaining to the number of units, production, employment and exports for a period of ten years substantiate this view.

<table>
<thead>
<tr>
<th>Table - 1.2: Performance of Small Scale Industries Sector</th>
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<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>1989-90</td>
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<td>1990-91</td>
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<td>1991-92</td>
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<td>1992-93</td>
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<td>1995-96</td>
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<td>1996-97</td>
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</table>
Un-recognised non-agricultural sector is not adequately represented. However, of particular significance is the fact that the sector has performed strongly in the post-reform period registering faster growth rate than the overall industrial growth in each of the last seven years. The cumulative growth rate (CGR) of production for the period 1989-90 to 1996-97 works out to be 17.79 per cent which is quite high by any standard. It is important to observe that the sector has been able to sustain double digit growth rates even during 1995-96 and 1996-97 despite symptoms of general industrial recession as production grew at much faster rate than the number of units. It may be noted here that the per unit production is also on upward trend.

The employment in SSI sector which is next only to agriculture has also shown an upward trend growing at 4.16 per cent. This moderate growth rate is mainly on account of technology advancement and consequent reduction in labour input (leading to improved labour productivity) in modern segment of SSIs which account for about 83 per cent of the total production and little over 40 per cent of the employment in SSI sector. The share of traditional sector in total employment has been quite high at 60 per cent and among different sub-
sectors of traditional sector, handloom continues to be a major provider of employment.

It is a well known fact that the share of SSI sector in the total exports of the country has been more than 36 per cent between 1989-90 and 1996-97. It increased at higher rate during 1997-98 to 1998-99. The exports from SSI sector has shown a wholesome growth at 28.06 per cent. During the same period, the total exports from the country grew only at 24.18 per cent. Further, despite low export performance (total export) in the recent years, the share of small scale industries is more or less same.

1.5: Changing Structure and Composition of SSI Sector

In India, SSI sector covers industries using the state of the art and technology with high capital investment as well as tiny industrial units and also embraces the activities of artisans, village and cottage industries. Administratively, India’s SSIs are divided into two broad sectors wherein each sector comprises of more than one of industries as shown below.

Composition of SSI Sector

![Diagram of SSI Sector Composition]

Figure: 1.1
For co-ordinating the development programmes at the national level, each of the sub-sectors has its own supervision body or board such as Khadi and Village Industries Commission (KVIC), Development Commissioner for Handlooms, Handicrafts Board, Central Silk Board, Coir Board and Small Industries Development Organisation (SIDO). The residual small scale industries sub-sector which is overseen by SIDO is often seen as representing the whole sector. On account of simple tools and production process, the first five sub-sector are collectively called Traditional Sector whereas the last two are known as the Modern Sector. The details pertaining to the production by these sectors and their industry groups are presented below for a period of seven years.

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<tbody>
<tr>
<td>1.</td>
<td>A. Traditional Sector:</td>
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</tr>
<tr>
<td>1.</td>
<td>Handicrafts</td>
<td>11,325</td>
<td>13,260</td>
<td>15,550</td>
<td>18,255</td>
<td>21,455</td>
<td>25,200</td>
<td>29,626</td>
<td>17.40</td>
</tr>
<tr>
<td>2.</td>
<td>Handlooms</td>
<td>3,974</td>
<td>3,350</td>
<td>4,243</td>
<td>4,754</td>
<td>7,234</td>
<td>16,184</td>
<td>15,700</td>
<td>32.05</td>
</tr>
<tr>
<td>3.</td>
<td>Village Industries</td>
<td>1,947</td>
<td>2,264</td>
<td>2,523</td>
<td>2,877</td>
<td>3,234</td>
<td>3,504</td>
<td>3,890</td>
<td>12.09</td>
</tr>
<tr>
<td>4.</td>
<td>Sericulture</td>
<td>279</td>
<td>329</td>
<td>353</td>
<td>357</td>
<td>390</td>
<td>522</td>
<td>626</td>
<td>13.10</td>
</tr>
<tr>
<td>5.</td>
<td>Khadi</td>
<td>161</td>
<td>168</td>
<td>400</td>
<td>521</td>
<td>685</td>
<td>760</td>
<td>960</td>
<td>37.47</td>
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<td>6.</td>
<td>Coir</td>
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<td></td>
<td>Sub-total (A)</td>
<td>18,547</td>
<td>20,540</td>
<td>24,228</td>
<td>27,824</td>
<td>34,274</td>
<td>47,567</td>
<td>52,212</td>
<td>20.12</td>
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<tr>
<td>7.</td>
<td>B. Modern Sector</td>
<td></td>
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</tr>
<tr>
<td>7.</td>
<td>SS Industry</td>
<td>1,55,340</td>
<td>1,78,699</td>
<td>2,09,300</td>
<td>2,41,648</td>
<td>2,93,990</td>
<td>3,56,213</td>
<td>4,12,636</td>
<td>18.07</td>
</tr>
<tr>
<td>8.</td>
<td>Sub-total (B)</td>
<td>1,69,466</td>
<td>1,99,663</td>
<td>2,32,474</td>
<td>2,67,168</td>
<td>3,22,797</td>
<td>3,78,578</td>
<td>4,36,562</td>
<td>20.43</td>
</tr>
<tr>
<td></td>
<td>Total (A+B)</td>
<td>1,88,193</td>
<td>2,20,203</td>
<td>2,36,702</td>
<td>2,94,992</td>
<td>3,57,071</td>
<td>4,26,145</td>
<td>4,88,774</td>
<td>17.49</td>
</tr>
</tbody>
</table>

Source: Annual Report of SIDBI, 1997-98, p. 91

As stated earlier, the structure and composition of SSI sector has changed over a period of time, and this could be on account of growth within SSIs as well
as the growth in the industrial sector. As evidenced in many industrially
developed economies, consistent growth in SSI sector should result in the
reduction in the role of unorganised sub-sector.

At the outset, the production has shown an increasing trend in all sub-
sectors of SSI between 1990-91 to 1996-97, while the compound growth rate for
the sector as a whole has been 17.49 per cent. The growth rates have been, more
or less, same for the traditional as well as the modern segments. Within the
traditional segment, Coir and Handloom sub-sectors have shown high growth
rates. The Power Loom sector has shown the lowest growth rate of 6.98 per cent
as against 18.07 per cent by other SSI sector.

The percentage shares of different sub-sectors of SSI presented in
Table - 1.4 help to understand the changing structure and composition of SSI. It
may be seen from the table that the composition of SSI sector is fast changing in
favour of modern small scale industries. Although production in different
segments of Traditional Sector has gone up considerably, the relative importance
of these sub-sectors in the total production of SSI has come down substantially.
The share of Traditional Sector has declined from 16.10 per cent in 1973-74 to
10.58 per cent during 1996-97. The composition of output in the Traditional
Sector mirrors the long-term change already noticed in the relative decline of the
house-hold sector. While the share of Traditional Sector (segment) is on the
decline, handicrafts and handloom sub-sectors continue to dominate in terms of
their high share in the total output of Traditional Sector. On the other hand,
there has been a significant increase in the share of Modern Small Scale Sector as evident from 67.50 per cent in 1973-74 to as much as 89.42 per cent during 1996-97. However, within Modern Sector, the importance of Power Loom has also been reduced substantially.

Table - 1.4: Changing Structure and Composition of SSI Sector (%)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A. Traditional</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Industries:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Handicrafts</td>
<td>7.83</td>
<td>5.41</td>
<td>6.18</td>
<td>6.19</td>
<td>6.06</td>
</tr>
<tr>
<td>4</td>
<td>Handlooms</td>
<td>6.20</td>
<td>4.45</td>
<td>2.95</td>
<td>1.61</td>
<td>3.12</td>
</tr>
<tr>
<td>5</td>
<td>Sericulture</td>
<td>0.46</td>
<td>0.49</td>
<td>0.43</td>
<td>0.35</td>
<td>0.29</td>
</tr>
<tr>
<td>6</td>
<td>Village Industries</td>
<td>0.09</td>
<td>1.17</td>
<td>0.96</td>
<td>0.97</td>
<td>0.78</td>
</tr>
<tr>
<td>7</td>
<td>Coir</td>
<td>0.44</td>
<td>0.15</td>
<td>0.11</td>
<td>0.19</td>
<td>0.20</td>
</tr>
<tr>
<td>8</td>
<td>Khadi</td>
<td>0.44</td>
<td>0.26</td>
<td>0.18</td>
<td>0.12</td>
<td>0.13</td>
</tr>
<tr>
<td>9</td>
<td>Sub – total (A)</td>
<td>16.10</td>
<td>11.95</td>
<td>10.81</td>
<td>9.43</td>
<td>10.58</td>
</tr>
<tr>
<td>10</td>
<td>B. Modern</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Industries:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>SS Industry</td>
<td>52.94</td>
<td>78.12</td>
<td>80.55</td>
<td>81.92</td>
<td>84.52</td>
</tr>
<tr>
<td>14</td>
<td>Sub – total (B)</td>
<td>67.50</td>
<td>88.05</td>
<td>89.19</td>
<td>90.57</td>
<td>89.42</td>
</tr>
<tr>
<td>15</td>
<td>Total (A+B)</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Compiled on the basis of Table - 1.3

With regard to employment, it is interesting to note that between 1990-91 and 1996-97, the Traditional Sector has increased its share from 59 per cent to
61 per cent, whereas during the same period the share of Modern Sector segment remained, more or less, stagnate at around 40 per cent. This stagnancy in the share of Modern SSI to total employment may be attributed to the increasing application of technology in modern segment. While export from SSI sector has been increasing during the last eight years, there has been a substantial reduction in the contribution from Traditional Sector to total exports from SSI sector as it reduced from 48 to 38 per cent while that of Modern Small Scale Sector improved its share form 52 to 62 per cent.

1.6: Performance of SSI Sector in Karnataka

The growth accomplished by the small scale industries in Karnataka is analysed in comparison with the growth at All India level during 1985-86 to 1999-2000. The details relating to the growth in terms of number of units, investment and number of persons employed are presented in the following table (Table - 1.5). It can be seen from the table that the number of small scale industrial units in Karnataka increased from 0.6 lakh at the end of 1985-86 to 2.4 lakh by the end of 1998-99. The compound growth rate of SSI units in Karnataka to total number of units in India has increased to 7.08 in 1998-99 as against 4.7 per cent in 1985-86. It can also be noted from the table that the number of units in small scale sector increased further to 2.52 lakh by March 31, 2000.

In terms of employment in SSI units, the growth rate in Karnataka is higher than for the whole country as the state registered a compound growth rate
Table 1.5: SSI Units in Karnataka as a Percentage of Total SSI Units in India, 1985-86 to 1999-2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Units (lakh)</th>
<th>Employment (lakh)</th>
<th>Investment (Rs. crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Karnataka</td>
<td>India</td>
<td>Karnataka as % of India</td>
</tr>
<tr>
<td>1985-86</td>
<td>0.60</td>
<td>13.60</td>
<td>4.70</td>
</tr>
<tr>
<td>1995-96</td>
<td>1.80</td>
<td>27.24</td>
<td>6.60</td>
</tr>
<tr>
<td>1996-97</td>
<td>1.89</td>
<td>28.57</td>
<td>6.61</td>
</tr>
<tr>
<td>1997-98</td>
<td>2.23</td>
<td>30.14</td>
<td>7.40</td>
</tr>
<tr>
<td>1999-00</td>
<td>2.52</td>
<td>32.25</td>
<td>7.81</td>
</tr>
</tbody>
</table>

Source: 1) Compiled from the official records of Directorate of Industries and Commerce, Government of Karnataka, Bangalore.

of 7.8 per cent as against 4.8 per cent for the whole country. Further, the proportion of employment in SSI units in Karnataka in the total employment offered by SSI units at the All India level increased from 5.7 per cent as on March 31, 1986 to 8.43 per cent by the end of 1999-2000 financial year.

A comparison of growth rate from the viewpoint of investment in SSI sector also shows that the growth rate is more in case of Karnataka than for the whole country as the proportion of investment in SSI sector in Karnataka to all India is increasing continuously. The district/division-wise distribution of SSI units in Karnataka for the year 1999-2000 is furnished in the Annexure (Annexure – 1.1). It is clear from annexure that the number of SSI units increased substantially in all the divisions in Karnataka State. However, much dispersion has not taken place. Of the four divisions, Gulbarga Division is least developed, and Bangalore Division is moderately developed.

1.7: Problems of Small Scale Industries

The governments - both central and state have taken a number of steps to provide a number of services to the SSIs. They are providing both the direct services (such as, advisory services, industrial research services, development financial services, marketing aids and provision of basic utilities and service), and indirect services (like, streamlining the bureaucratic system, lessening the red tapism, etc.,) with a view to promote the growth of SSIs. In spite of all these
promotional measures, many a number of production, marketing and financial problems still continue to haunt the small scale industries.\textsuperscript{12}

While some of the problems are, more or less, common to a wide range of SSIs, others have particular relevance to a group of SSIs and to the units established and functioning in rural and backward area. In this background, a few problems faced by the SSIs are identified below (without analysis as the same is made in chapter – III).

\textbf{Problems of SSIs}

- Delay in Registration
- Raw material Problem
- Power Problem
- Industrial Sheds
- Marketing Problems
- Inadequate Infrastructural Facilities
- Obsolete machinery and Outdated Production Technology
- Procedural Delay
- Discriminatory Treatment
- Inadequate Financial Resources
- Demand for Margin Money and Mortgages
- Problem of Working Capital

Figure: 1.2

Due to the above problems, in addition to a large number of problems, the 
SSIs have not been able to realize their full potential and therefore, not 
contributing their best for the overall development of the economy. Hence, the 
Government of India has taken certain steps to ensure the desired growth in the 
SSIs which are analysed very briefly in the following paragraphs.

1.8: Measures Initiated by the GoI – A Brief Analysis

Having declared its faith in the efficiency of small industries as a vehicle for rapid progress, the Government of India (GoI) introduced a number of programmes for developing them. The following are the some of the specific measures initiated by the government to overcome the problems of small scale industries and to help them to achieve the improved overall performance. However, these measures can broadly be classified into two categories viz., (a) Establishment of boards to assist specific industries, and (b) Provision of various benefits and/or facilities to the units in the small scale sector. The details are presented in Figure – 1.3 followed by a brief description of the same.
Measures of GOI for SSIs

Establishment of Different Boards

- Small Scale Industries Board
- Directorate of Cottage and Small Scale Industries
- All India Handloom Board
- Central Silk Board
- All India Handicrafts Board
- Khadi and Village Industries Board
- The Coir Board

Direct Benefits Offered to SSIs

- Financial Assistance
- Industrial Estates
- Export Promotion
- Industrial Extension Services

Figure: 1.3

1.8.1: Establishment of Different All India Boards

With a view to assist the SSIs in the country, the Government of India has established a number of boards at the national level. They are presented below with a brief explanation about their activities.

1.8.1.1: Small Scale Industries Board (SSIB)

The central government set up Small Scale Industries Board in 1954 to frame and implement programmes for the development of small scale industries. In November 1954, the government appointed Development Commissioner for
small scale industries who will also be the ex-officio chairman of SSIB. Under the aegis of this Board, four regional Small Industries Service Institutes (SISIs) – one each at Kolkatta, Mumbai, Chennai and Faridabad have been set up to provide technical services, and to advise and assist the SSIs in marketing and promotional aspects.

1.8.1.2: Directorate of Cottage and Small Scale Industries

All most all the state governments have constituted separate Directorates of Cottage and Small Scale Industries whose activities are to be co-ordinated by the Development Commissioner for Small Scale Industries. The role played by the State Directorates of Industries is of great importance. The successful implementation of the programmes for the small scale industries depends, to a considerable extent, on the initiative, leadership and resourcefulness of the Directorates of Industries.

The promotional functions to new entrepreneurs include survey of development potentialities of an area, preparation of schemes, publicity, issue of technical literature, technical assistance, etc. In majority of the states, the Directorates have set up common facility centres and industrial research laboratories for the benefit of small industrial units. The regulatory measures include registration of small scale units, implementation of quality marking and marketing schemes, construction of industrial estates, etc. In fact, these Directorates of Industries are always looked upon by the industrialists in their
states as their guides for solving their problems and for meeting their requirements.\textsuperscript{13}

\textbf{1.8.1.3: All India Handloom Board}

This Board was set up in 1952 for dealing with the problems pertaining to the development of handloom units. It renders assistance in organising cooperatives in handloom textile industry, establishing sales emporia and in providing grants and loans. It has set up a central marketing organisation which looks after the sale of handloom cloth in the home market as well as in the foreign markets. The All India Institute of Handlooms Technology established at Salem started functioning from September 1960. Technical advice is given by this institute to the diploma candidates in handloom technology.

\textbf{1.8.1.4: The Central Silk Board}

The Central Silk Board was set up in 1949 as a statutory body and it was reconstituted in 1952. The Board is entrusted with the responsibility of developing sericulture and the silk industry, and to act as a co-ordinating agency for the industry as a whole. Further, it provides technical and financial assistance to the states. The board’s programmes include (a) breading of improved cocoons, (b) modernising of silk reeling, (c) establishment of foreign race seed stations and training production centres, and (d) provision of research

facilities. The programmes also include schemes for assisting the development and marketing of non-mulberry silk.

1.8.1.5: All India Handicrafts Board

The Board was constituted in 1952 with the objectives of (a) developing and improving production of handicrafts, (b) promoting sales at home and abroad, (c) co-ordinating the activities of various state governments relating to cottage industries, and (d) examining how cottage industries can be co-ordinated with large scale industries. This Board helps research in new designs and patterns, and in improving processes. It also conducts surveys for marketing handicrafts. The Handicrafts Board is running 19 pilot centres out of which four are for training, three for training-cum-production, three for research and experimentation, five for revival of traditional crafts, and the remaining four are for experimental production. Financial assistance, on an increasing scale, was given to the state governments for the development of local traditional handicrafts.

1.8.1.6: The Khadi and Village Industries Board

It was started in 1953 to prepare and organise programmes for the development of khadi and village industries. The functions of the Board were subsequently taken over by the Khadi and Village Industries Commission with effect from April 1, 1957. The Khadi and Village Industries Commission, in addition to Khadi, had taken over the responsibility of developing 22 specific
village industries (viz., soap making, oil, rice, hand-made paper, bee-keeping, leather, flour, chakkies, village potteries, etc.). The commission is encouraging the use of power for purposes like pulp making for manufacture of paper, crushing of non-edible oilseeds, gur and khandasari, and the manufacture of sugar from palm. The commission undertakes research activities in its institute at Wardha to improve processes and develop new machineries. The results of the research programmes are passed on to the villages through Information Service Division, and Demonstration Division. In addition, the commission shares responsibility with the Small Scale Industries Board for the training of the small industry extension workers for community development.

1.8.1.7: The Coir Board

It was set up by the Government of India in 1954 under the Coir Industries Act, 1953 for developing the coir industry. The Board is concerned with different problems of production, marketing and research relating to coir fibre, yarn and finished products. The Coir Research Institute near Alleppey, Andhra Pradesh, started functioning from April 1959, The Coir Board has been undertaking various programmes such as introduction of small spinning machines for improving the quality of coir yarn, providing better facilities for dyeing and processing, development of fibre and rope making, utilisation of coconut pith and west for developing the industry. The Board promotes the establishment of co-operative societies for production and marketing.

1.8.1.8: National Small Industries Corporation

It was set up in 1955 as a private limited company. Subsequently, its entire capital was subscribed by the Government of India. Industries ordinarily employing less-than 100 workers and having capital assets not exceeding Rs.10 lakh come within the purview of this corporation. The main objectives of the corporation are (a) to secure a reasonable share of government order for small scale units by accepting orders from procurement departments of government and issuing sub-contracts to small scale units and to secure contracts directly from the procurement departments of government by the tender system, (b) to provide the units with loans and technical assistance, (c) to try to secure a complimentary role between the large scale industry and small scale industry so as to enable the latter to manufacture components and other articles required by the former, (d) to provide marketing assistance for the products of small scale industrial units, and (e) to supply machinery under hire-purchase scheme to the small units.

1.8.1.9: District Industries Centres

The Industrial Policy Statement announced by the Government of India in December 1977 laid emphasis on the need for providing all assistances to the small industrialists under one roof. The small entrepreneur is so bewildered and confused with the plethora of agencies that exist and has to knock at many doors for getting guidance and facilities such as selection of product, credit, inputs like raw material, power and for tackling other problems. To overcome this, the
Government of India announced the establishment of District Industries Centres (DICs) to provide, under single roof, all the services and the support required by small and village entrepreneurs. The DICs ensure a thorough liaison with the concerned organisations for solving the problems. Each district would have one district industries centre.

1.8.2: Direct Benefits Offered to SSIs

With a view to assist the SSIs in the country the Government of India has giving various benefits these are briefly summarised below.

1.8.2.1: Financial Assistance

The small industrial units are treated as one of the priority sectors for the provision of credit facilities by commercial banks and other financial agencies. The broad framework of the policy in relation to SSIs pursued by commercial banks is presented below.

a. The small scale industry is in the priority sector and the banks, therefore, provide funds to this sector on priority basis,

b. Within small scale sector, preference is given to units that produce essential goods and/or items in the form of inputs for the core sector,

c. Units enjoying credit limits of Rs. 2 lakh and below can be given funds at interest rates below the minimum lending rate prescribed by the Reserve Bank of India, and
d. The Reserve Bank of India has suggested that added attention should be given to provide term loans for small industrial units with investment of up to Rs. 25,000 each.

There has been a marked improvement in the advances made by the scheduled commercial banks to small scale industrial units after the nationalization of 14 major commercial banks in July 1969. The Asian Development Bank (ADB) is also showing keen interest in the development of SSIs. At the instance of the United Nations Industrial Development Organisation (UNIDO), the ADB has been financing industrial estate projects and promoting development of ancillary industrial units. The ADB in which India is also a member provides foreign exchange resources to the national credit agencies so that small scale industries are able to obtain imported raw materials, machinery and equipment. The State Finance Corporations provide medium and long-term loans to SSIs. Under the State Aid to Industries Act, the State Directorates of Industries give loans to small industries on the security of personal bonds and sureties for obtaining premises, machinery and/or working capital. The loans are re-payable on easy instalments at rates of interest varying from 3 to 5 per cent.

1.8.2.2: Industrial Estates

An industrial estate is a group of factories constructed on an economic scale in suitable sizes with facilities of water, transport, electricity, steam, banks,

post office, canteen, watch and ward, first aid, etc., and is provided with special arrangements for technical guidance and common service facilities. The role of industrial estates as a tool for the dispersal of the industries as well as for the development of small scale industries has rightly been recognised in the Five Year Plans. The attraction of the industrial estates is the provision of a readily built modern type of factory premises with essential facilities allotted on hire-purchase basis. The industries set up in these estates are also entitled to various incentives granted by the governments for small scale units through the small industries departments and state financial corporations. Further, the estates provide splendid opportunities for small scale units to observe the working of each other and benefit from such experiences. They help the promotion of a spirit of co-operation and joint effort on the part of small entrepreneurs and also give them collective strength in making representations for the common good. During the Second and Third Five-Year Plan periods, the construction and management of industrial estates were mainly undertaken by the state governments. Now, some industrial estates are run by joint stock companies, co-operatives and also by local bodies.

1.8.2.3: Export Promotion

In recent years, export promotion of products of small scale industries has received special attention of the Small Industries Development Organisation and other agencies at the national and state levels. The developing countries in Asia, Africa and Latin America find the products of small industries of India more
suited to the requirements of their products and the intermediate technology of India more suited to the requirements of their countries. Major items of exports from small industries include engineering goods, drugs, pharmaceuticals, sports goods, leather goods, tanner hides and skins, ready-made garments, woolen hosiery, plastic products, etc.

Though the exports from small sector have been gradually increasing, there is a lot of potential still to be tapped. Very few small industries registered with the State Directorates of Industries are found to be actually participating in exports. At a time when the country is facing severe foreign exchange crisis, a high degree of export is needed to be made in all conceivable sectors and sub-sectors of manufactured output in the country.

With a view to remove the various barriers experienced by the small scale industries on the export front, the Union Ministry of Industrial Development and Internal Trade set up a special export cell with the following objectives.

a. Identification of the export worthiness of the units in the small scale sector,

b. Locating the foreign buyers,

c. Dissemination of information regarding export for the benefit of small industries,

d. Helping the small industrialists for working out CIF and FOB prices, and preparation of other export documents,

e. Rendering export promotion consultancy work, and

f. Assisting small industries in preparation of literature, catalogues, etc.
1.8.2.4: Industrial Extension Services

The introduction of industrial extension service seeks to provide technical assistance and business management counsel either free of charge or at concessional fee to small units which cannot afford to engage paid business consultants. The Small Industries Development Organisation provides a comprehensive range of technical services to the small sector through its network of sixteen Small Industries Service Institutions (SISIs), nineteen branch institutes, 45 extension centres and five production centres in the country. These services include technical consultancy on improved technical process, use of modern machines and technical assistance on all aspects of production. The National Institute for Industrial Design, Ahmedbad and the Small Industries Extension Training Institute at Hyderabad have been organising courses for training the small scale industrialists. In addition, each SISI and extension centres have attached workshops to render the following technical services.

a. Training of workers of small industrial units in the use of modern machines and processes,
b. Demonstrating the use of modern machines and processes,
c. Providing common facility services through the machine installed in the workshops which the small units cannot afford due to their limited resources,
d. Developing proto-types of designs,
e. Making tools, dies, jigs, fixtures, ganges, and
f. Improvement in the use of raw materials and their substitutes.

The Small Industries Development Organisation (SIDO) brings out technical literature about the model schemes, impact guides, plant guides and
project guides with a view to orienting the small industries to the latest techniques of production and encouraging the growth of viable units through provision of institutional testing, designing and training facilities. The Government of India in collaboration with some friendly countries had set up Central Institute of Tool Designs and Electrical Measuring Instruments at Mumbai for the benefit of the SSIs.

**Conclusion**

From the analysis made, it can be concluded that the small scale industrial units have been contributing heavily for the overall development of the economy. To help them in their endeavour, the Government of India is providing a number of benefits through its agencies. However, the benefits provided by the government are neither adequate nor they are reaching the beneficiary - units due to a number of short - comings in the system.
Summary of the Chapter

The chapter begins with the role of SSIs in developed countries and the need for extracting maximum from them by the developing countries including India by providing necessary facilities and by creating conducive environment. Then the status of SSIs during the Pre- and Post-Independence periods is analysed. A brief review of different Industrial Policy Statements from the viewpoint of SSIs is made followed by an analysis of importance given to SSIs during the Five-Year Plan periods. An attempt is also made to evaluate, briefly, the performance of SSIs followed by the identification of problems of SSIs and also the analysis of the measures initiated by the government.